

TRANSFORMING WASHINGTON'S BUDGET

The state of Washington, in addition to almost every other state, has been navigating through very stormy budget waters during the past three years. Even before the national recession struck, the state faced a sizable shortfall in 2009–11 due to rising health care inflation, more students in public schools, more incarcerated prisoners and higher state employee pension obligations, all of which cost the state an additional \$4.2 billion. The recession compounded this problem when state revenue dropped \$7.8 billion. Revenue declines were caused by lower levels of consumer spending as well as plummeting home values and sales.

The Governor and the Legislature closed a \$12 billion shortfall in the 2009–11 budget through:

- » \$5.1 billion in cuts and savings
- » \$3.6 billion in federal funds
- » \$2.5 billion in fund transfers and use of reserves
- » \$761 million in revenue enhancements (some of which expired in December 2010 due to the passage of Initiative 1107)

Yet the problems have not gone away. The 2011–13 budget is also challenged by rising costs and dropping revenue, some of which are:

Caseloads – More Washingtonians are turning to the state for health care, social services and public education for their children. Additionally, more than 30,000 people have already exhausted their unemployment benefits, and the number will multiply in the months ahead. Many will apply for food stamps, public assistance and Medicaid. Some of those with children may apply for Temporary Assistance for Needy Families (TANF).

Pension costs – Keeping up with the state's pension obligations will cost an additional \$584 million, before implementation of the Governor's proposed reforms.

Federal stimulus funds – Replacing money we received from the federal government in the Fiscal Stabilization Package will cost the state an additional \$2 billion.

Independent of these escalating costs, the economy is still hamstrung by lagging consumer confidence that depresses anticipated revenues and slows housing starts. Forecasters expect a continuation of these revenue-dampening trends into the next budget period. The last two forecasts by the Economic and Revenue Forecast Council have predicted \$1.5 billion in decreased revenue for the next biennium, which creates a \$4.6 billion shortfall for the 2011–13 budget.

An additional complication in the state's budgeting process is the tight constraints on where we can cut. Sixty percent of the budget is 'off limits' due to constitutional, legal and contractual obligations, and federal requirements. These programs include K-12 education, mandatory medical assistance, debt service and pensions. More flexibility is available in the remaining 40 percent that includes corrections, early learning, higher education, non-basic K-12 education, non-mandatory social services and health care — services that our citizens value highly.

To solve this unprecedented budget crisis, Governor Gregoire launched a transformational budgeting process.

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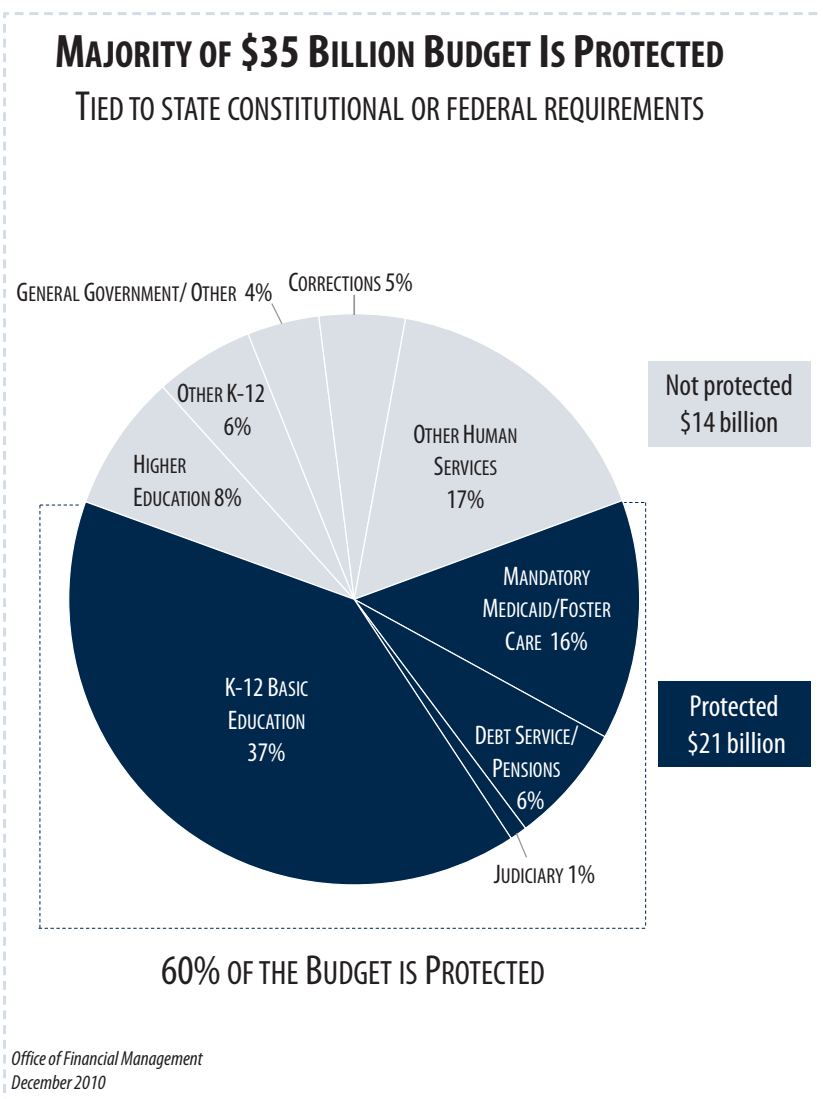
First, the Governor reinforced the Priorities of Government — or POG — budgeting process. She focused POG on the values that we hold as a state:

- » We value world-class achievement in early education, elementary, middle and high schools, and postsecondary education.
- » We must improve the health of Washingtonians, and support and keep safe our children and adults who are unable to care for themselves.
- » We hold the responsibility to provide for the safety of people and protection of property.
- » We must protect natural resources and cultural and recreational opportunities.
- » We must promote economic development in a growing competitive environment.
- » Efficient state government services are important to the people of our state.

But POG alone does not provide sufficient guidance for making difficult budget choices. The Governor asked tough questions organized in three themes to guide decisions on how to invest scarce dollars among so many competing demands. This process led to better decisions about how to transform a budget with far less money while meeting the state's most critical needs during this historic recession.

FISCAL RESPONSIBILITY

- » Is the activity an essential service?
- » Does state government have to perform the activity, or can it be provided by others?
- » Can the activity be eliminated or delayed in recessionary times?



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- » Does the activity need to be paid for with state general funds? Should users pay a portion of the costs?
- » Are there federal funds or other fund sources available to support this activity?

EFFICIENCY

- » Are there more cost-effective, efficient ways to do the activity?

PERFORMANCE

- » Can the activity be the subject of a performance contract?
- » Can the activity be the subject of a performance incentive?

Second, the Governor appointed the Transforming Washington's Budget Committee. Thirty-six business, nonprofit and government leaders offered and evaluated ideas. Four town halls conducted across the state drew more than 1,500 citizens. A list of ideas was sent to the Governor for consideration in the budget process, based on citizen and committee input. Many of these ideas are included in the Governor's budget proposal and her policy reforms.

Third, an interactive website was developed to provide a forum for the public to participate and evaluate suggestions. More than 19,000 visitors offered 137,000 votes on hundreds of ideas to save money and operate government more efficiently. The Governor and director of the Office of Financial Management responded to the most popular suggestions through videos and web postings that described what ideas are in use, what are under consideration and why some aren't feasible.

STATE EMPLOYEES

The services provided by state government are in higher demand during times of economic crisis. This makes the work done by state employees even more vital, and it makes the need for a talented work force all the more necessary.

State employees must share in the sacrifice to create a balanced budget, but they cannot bear all of the burden. Throughout this recession, the state work force has shrunk, employee compensation has declined and health care costs have increased. The public work force (including teachers) is projected to be down 10,000 positions from 2007–09 to 2011–13. This includes a greater than 9 percent reduction in the number of managers.

Overall compensation for state employees has declined. No general wage increases since 2008 have been made. Compensation decreased during 2010 in the form of unpaid temporary layoffs, which cost an average employee \$178 per month. About 35 percent of the work force was subject to temporary layoffs, and the projected fiscal year 2011 savings to the General Fund-State is \$10.3 million (\$20.7 million total funds). The Governor's budget asks for additional 3 percent compensation reductions in 2011–13. These pay cuts are temporary and will expire at the end of the biennium. They will not affect employee pension benefit calculation. The manner in which these reductions will be made (temporary layoffs, shortened work hours, etc.) is still being negotiated. The savings are \$176 million in General Fund-State and \$269.4 million overall.

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In 2009–11, health care costs have risen in the form of higher out-of-pocket costs such as co-pays and deductibles. Starting in 2012, employees will be asked to pay 25 percent more of their health insurance premiums. An average employee will see his or her portion of health care premiums rise from \$86 in 2010 to \$147 in 2013.

Employees will also pay more in pension contributions. PERS 2 members will pay 4.59 percent in 2011–13, up from 3.9 percent in 2009–11. This will cost an average employee an extra \$32 per month. The Governor is taking action to rein in pension costs, but there are still fluctuations based on stock market performance and other factors.

State employees are sacrificing in these challenging times. Governor Gregoire appreciates their vital contributions to our state and their help in seeing the state through this fiscal crisis.